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CURRENT INTELLIGENCE WEEKLY SUMMARY

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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

ARAB-ISRAELI SITUATION Page 1

The pattern of Israeli reaction to last week's Egyptian commando raids in the Gaza area, and the fact that Egypt failed to give a direct answer to Israel's demand for a cease-fire, leave open the possibility of an Israeli retaliatory raid of substantial size. [REDACTED]

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SOVIET TACTICS
IN THE ARAB-ISRAELI SITUATION Page 3

The USSR appears to regard the present situation in the Middle East as offering an unprecedented opportunity to widen the split between the Egypt-Saudi-Syrian bloc and the West. In the UN Security Council deliberations last week, Soviet maneuvers were designed to cause the Arabs to question the motives behind the American resolution and to reduce the scope of the secretary general's mission to the Middle East. [REDACTED]

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BAGHDAD PACT MEETING Page 4

When the council of ministers of the Baghdad pact convenes in Tehran on 16 April, the four Middle East members can be expected to demand some tangible evidence of the usefulness of the pact. Disappointed over their failure to obtain any direct advantages from the alliance, the Middle East members probably will consider making the pact an instrument of economic planning and development. Attempts will probably be renewed to obtain formal American adherence, and the United States may also be pressed to take a leading role in the economic development of the northern tier area. [REDACTED]

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CEYLON ELECTION Page 5

S.W.R.D. Bandaranaike, who became Ceylon's prime minister as a result of the victory of his united front coalition in this week's national elections, will find most other Ceylonese political parties supporting his announced socialist-neutralist policies. His government will find it difficult to deal with differences of opinion in parliament on the issue of one or two national languages for Ceylon. [REDACTED]

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SOVIET EXPECTATIONS
FOR VISIT TO BRITAIN

Page 6

During their visit to Britain, starting on 18 April, Khrushchev and Bulganin will probably engage in conversations on trade and disarmament, perhaps propose a friendship treaty with Britain, as well as restate the Soviet desire to take part in a conference on the Middle East. A 9 April Pravda statement expressing the disappointment of the Soviet leaders that the British were limiting the opportunities for contacts with British people suggests that a major goal of the trip is to make a favorable impression on the population as Malenkov did during his recent trip. [REDACTED]

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PART II

NOTES AND COMMENTS

MAO'S STANDING IN CHINA

UNIMPAIRED BY ATTACK ON STALIN

Page 1

Although the Chinese Communists have joined in the attack on the cult of personality, they are not disposed to detract from the stature of Mao Tse-tung. The USSR does not appear willing to make an issue of the special treatment given Mao, although it would probably prefer to see less adulatory references to the Chinese leader.

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[REDACTED]

SATELLITES EXONERATE

HIGH-LEVEL PURGE VICTIMS

Page 2

The Soviet Communist Party's public disavowal of the last two decades of Stalin's one-man rule has opened the way to complete the program, begun in 1953, of reversing or modifying the charges brought against top-level Satellite Communists purged during the Stalin era. The degree of exoneration, however, will apparently vary. It will probably be complete only in those Satellites neighboring Yugoslavia where the charges were primarily nationalism and conspiracy with Tito, and the major victims, like Rajk, were executed. [REDACTED]

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BULGARIAN PREMIER'S POSITION
IMPERILED

Page 3

The Bulgarian central committee's criticism of Premier Vulko Chervenkov augurs severe limitation on his powers, if not removal from his position as number-one Bulgarian political leader. The secretariat of the party has already been enlarged, and the central committee is reported to have voted to "rehabilitate" Chervenkov's former rival Traicho Kostov, executed as a "Titoist" in 1949. An extraordinary session of the Bulgarian National Assembly has been set for 16 April probably to consider changes in government. [REDACTED]

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NEW "LIBERALISM" IN POLAND

Page 5

Poland has officially gone further than any other Satellite in its interpretation of the downgrading of Stalin. Polish public information media regard the Soviet 20th Party Congress as "a denial of slavish adherence to formula" and as promoting a new liberalism in numerous fields. The abundance and intensity of the Polish comment probably reflect Polish nationalist resentment of Stalin and the Warsaw government's eagerness to place the blame elsewhere for measures which have proven unpopular. In propagating the new liberalism the Warsaw regime must exercise caution to keep Polish nationalist sentiment in bounds. [REDACTED]

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MIKOYAN IN COMMUNIST ASIA

Page 6

Soviet first deputy premier Anastas I. Mikoyan completed his trip through Asia with stops in Peiping and Ulan Bator. The trip was highlighted by the signing of an aid agreement with China which committed the USSR to further support of Chinese Communist economic development. [REDACTED]

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LAOS

Page 7

In the expected absence of any solution to the Pathet Lao problem resulting from this month's meeting of the Geneva co-chairmen, the Laotian government may decide to see what a direct meeting with the Viet Minh could produce. [REDACTED]

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JAPANESE-SOVIET RELATIONS Page 7

The USSR, in response to a Japanese request, has agreed to talks on the fisheries problem either in Tokyo or Moscow. Japanese foreign minister Shigemitsu prefers Moscow and has selected a delegation of government officials and private fisheries representatives. Meanwhile, Japan's chief delegate at the London peace treaty talks publicly hinted that Japan's weak position may force it to make some unpopular concessions to obtain an over-all settlement with the USSR. [REDACTED]

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SCANDINAVIAN-SOVIET AIR AGREEMENTS Page 8

The bilateral civil air agreements between the Soviet Union and Sweden, Norway and Denmark signed on 31 March are the USSR's latest move in the establishment of direct scheduled air flights between Moscow and the West. The USSR, by virtue of its geographic position, offers the shortest air route from Europe to the Orient, which it can use as a bargaining point for further air agreements with Western countries. [REDACTED]

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LYSENKO'S REPLACEMENT Page 10

Lysenko's replacement by Lobanov as head of the USSR's Agricultural Academy amounts to repudiation of Lysenko's theories in the field of biology and will probably accelerate a return by Soviet scientists to established beliefs and techniques in biology and agriculture. [REDACTED]

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SOVIET IMPORTS OF ALUMINUM ORE Page 11

Current Soviet efforts to obtain substantial amounts of bauxite from Greece and Yugoslavia suggest that in the future the USSR may become partially dependent on aluminum ore from outside the Sino-Soviet bloc. Unless new internal sources of bauxite are developed soon, Soviet bloc supplies by 1960 will be inadequate to support the USSR's planned aluminum production. [REDACTED]

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NORTH AFRICA Page 12

Military operations have been stepped up in Algeria

In Morocco, a joint Moroccan-Spanish statement accepted, in principle, independence for the Spanish zone, but left unsolved several pressing issues. In Tunisia, Neo-Destour president Habib Bourghiba is assuming formal governmental responsibilities.

TURKEY'S ECONOMIC SITUATION Page 14

Turkey's worsening economic situation is characterized by serious inflation and lack of essential goods and raw materials. The government is apparently divided on whether to devalue the currency, and a new cabinet crisis may develop over the issue.

EFFECT OF STALIN REPUDIATION ON THE ITALIAN LEFT Page 15

The Soviet leaders' repudiation of Stalin appears to have had more impact on the Italian left than on other left-wing groups outside the Sino-Soviet bloc. The turmoil within the Communist and Nenni Socialist Parties has threatened unity within both parties and may be weakening their alliance. Communal and provincial elections, to be held throughout Italy on 27-28 May, are likely to find Togliatti and Nenni competing with each other for leadership of the Italian left.

WEST GERMANS FEAR DISARMAMENT MAY OVERRIDE UNIFICATION ISSUE Page 16

West German officials and the press are displaying sensitivity to statements suggesting that agreement can be reached on disarmament or any other important East-West issue on the basis of a continuing division of Germany. The Bonn government has protested recent remarks by French premier Mollet and Soviet Communist Party chief Khrushchev.

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PART III

PATTERNS AND PERSPECTIVES

BRITISH POLICY TOWARD THE USSR ON THE EVE OF THE BULGANIN-KHRUSHCHEV VISIT

Page 1

The British government, which has for some months shown increasing concern over the new tactics of Soviet foreign policy, is treating the 18-27 April visit of Bulganin and Khrushchev primarily as an opportunity to probe Russian intentions, particularly with reference to the Middle East. Britain would be interested in any Soviet overtures that would appear to lessen the prospects of war between Israel and the Arab states.

[REDACTED]

INDIAN ATTACKS AGAINST PAKISTAN SYMPTOMATIC OF NEHRU'S HOSTILITY TO SEATO AND BAGHDAD PACT

Page 3

Indian prime minister Nehru's antagonism to Western-sponsored defense alliances in Asia appears to be expressing itself in a tougher policy toward Pakistan--a member of both SEATO and the Baghdad pact. Increased Indian pressure on Pakistan--especially over the explosive Kashmir issue--may intensify Pakistan's efforts to force the West to choose between it and India.

[REDACTED]

JAPAN COMPETES FOR ROLE IN ASIAN DEVELOPMENT

Page 5

The Japanese government has well-defined plans for the economic development of South and Southeast Asia--a region where Communist economic penetration is beginning to have an impact, but where Britain and West Germany still offer Japan its stiffest competition. Tokyo's plans are to open new sources of supply for cheap raw materials and to stimulate the Asian market for Japanese goods. But these plans are likely to fall short of their potential unless the government is willing to devote greater financial resources to developing such trade than it has in the past.

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PEIPING ATTEMPTS TO OVERCOME PETROLEUM DEFICIENCY Page 9

Communist China's First Five-Year Plan (1953-1957) places great emphasis on the development of petroleum resources. Production of crude oil increased from 120,000 tons in 1949 to 980,000 tons in 1955. This is equal to one day's United States production and five days' Soviet production. Sharply rising consumption forced China to import 57 percent of its requirements last year. This dependence on imports has been a major military vulnerability and has tied up some overland transport from the USSR. [REDACTED]

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BRAZIL'S FOREIGN POLICY UNDER KUBITSCHKE Page 12

President Kubitschke's first 60 days as head of the Brazilian government have revealed his intentions to expand commercial relations with Western Europe and the Soviet bloc. There are indications that he will seek at the same time to strengthen Brazil's traditional ties with the United States. [REDACTED]

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PART I

OF IMMEDIATE INTEREST

ARAB-ISRAELI SITUATION

Egypt still has given no direct answer to the Israeli demand for a cease-fire, although the final deadline was passed at noon on 11 April.

Cairo has, however, announced that terrorist fedayeen were being withdrawn from Israel. Should the Israelis decide to undertake a commando operation

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against Egyptian forces, there would be very strong pressure on Egyptian prime minister Nasr to reply in kind, but the presence and activity of UN secretary general Hammarskjold may exercise a restraining influence on both parties and may even be used as an excuse for postponing new actions.

By sending in terrorists, Nasr apparently hoped to have again, without incurring a full-scale reprisal from the Israelis, the success this kind of operation enjoyed last fall. Although last fall's successes have not been repeated [redacted]

[redacted] the Egyptian press, by quoting the Tel Aviv radio, has again been able to claim that the Arabs have struck terror into Israeli hearts.

Israeli Reaction

The pattern of Israeli reaction would appear to call for a retaliatory raid of substantial size. However, the Israelis seem to realize the advantage they now have--with the highest UN official on the scene--as the most recently injured party. Hammarskjold

was disappointed with the Egyptian response to Israel's request for a cease-fire, and asked for a less equivocal statement from Cairo.

Coupled with this factor is the ability of the Israeli security forces to limit the scope of the terrorist incursions. The success of the Israeli government's security measures is believed to have led to some relaxation in the tension among the population and possibly to have stolen some thunder from Israeli extremist groups which probably are calling for forceful retaliation.

Air Battle

Frequent overflights by both sides resulted in an air battle on 12 April in which an Egyptian Vampire jet fighter was shot down over Israeli territory. Egypt had previously protested an Israeli reconnaissance flight which penetrated the Suez Canal zone, [redacted]

[redacted] The air action also paralleled events of last fall, when two Egyptian jets were shot down or collided over Israeli territory near the Gaza strip. [redacted]

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SOVIET TACTICS
IN THE ARAB-ISRAELI SITUATION

The USSR appears to regard the present situation in the Middle East as offering it an unprecedented opportunity to widen the split between the Egyptian-led Arab bloc and the West. Fully aware of Egypt's growing isolation from the Western powers--especially France and Britain--and its determination to alter the present Middle Eastern balance of power in favor of the Arabs, Moscow has shown its intention to give the Egyptian-led Arab bloc political, economic, and limited military support until the entire situation is reopened in the UN Security Council or a special conference is convened at which the Soviet Union can press its campaign for a permanent voice in the Middle East.

Moscow probably believes that by capitalizing on deep-seated Arab antagonisms toward Israel and taking an active anti-West, pro-Arab position in the tangled diplomatic maneuvers that will be forthcoming on Middle Eastern problems, it can pry the Egyptian-led Arab bloc still further away from its remaining ties with the West and bring it permanently into alignment with the Asian neutralists.

In the Security Council's deliberations last week, Soviet maneuvers were designed to support Arab questioning of the motives behind the US resolution and to limit the scope of the secretary general's mission to the Middle East. Although the USSR's pro-Arab amendments were rejected, they emphasized to the Arabs that the USSR was taking seriously its role as their champion.

Although the Soviet position has been openly pro-Arab for some time, it has not been violently anti-Israeli. Instead, Moscow's primary criticisms have been directed against the Western Big Three powers.

Moscow has maintained the West intends to send troops

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into the Middle East for the purpose of dictating a settlement without the participation of the Arabs and the USSR. It is for this reason that Moscow continues to insist that the correct place for finding a solution is in the Security Council, where the USSR occupies a permanent seat and can either veto Western moves to which it objects or sponsor any

action that might serve its objective of bringing the Arabs closer to the USSR.

If open conflict between the Arabs and the Israelis does not force the Security Council to reopen the problem before Hammarskjold returns, Moscow probably will wait for his report before pressing the problem further.

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BAGHDAD PACT MEETING

The second meeting of the Baghdad pact council of ministers opens in Tehran on 16 April. The prime ministers of the four Middle Eastern member countries will be present: Adnan Menderes for Turkey, Nuri Said for Iraq, Hussain Ala for Iran and Chaudhri Mohammad Ali for Pakistan. Britain will be represented by Minister of War Sir Walter Monckton.

The major items to be discussed will be the reports of the various committees--military, economic, counter-subversive and liaison--which have been meeting almost steadily since the first meeting of the council of ministers in November 1955. Discussion is expected to be particularly extensive on economic problems, as the members appear to be giving greater consideration to making the pact an instrument of economic planning and development. Britain has already announced

that it is allotting \$700,000 for economic projects.

The Middle East members are discouraged at the lack of progress and feel that the pact may not survive if vigorous action is not taken at this meeting. Secretary-General Awni Khalidi has said that the pact had to reach down to the common man for support "even if for no more than a Baghdad pact malaria team," adding that the pact's days would be numbered if it continued to be supported only by the government leaders.

Although the pact members are pleased that the United States will be represented by a high-level delegation of observers, further attempts will probably be made to secure formal American adherence. The members will also press the United States to take a leading role in financing the economic development of the northern tier area.

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CEYLON ELECTION

S.W.R.D. Bandaranaike, who became Ceylon's new prime minister after the smashing upset scored by his united front coalition in the three-day elections held on 5, 7, and 10 April, should find most other Ceylonese political parties supporting his announced socialist-neutralist policies. It is possible, however, that before his government can implement these policies it will be seriously embarrassed by differences of opinion in parliament on the issue of one or two national languages for Ceylon.

Party Strengths

Bandaranaike's united front won 51 of 95 contested seats in the lower house of parliament. His own Sri Lanka Freedom Party won 40 of these, the Trotskyite Viplavikara Lanka Sama Samaja 5, and associated independents 6. Outside the front, the Trotskyite Nava Lanka Sama Samaja won 14 seats, Tamil parties 13, Sir John Kotelawala's United National Party 8, Independents 6, and Communists 3.

Prime Minister Kotelawala's resignation on 11 April paved the way for Bandaranaike to assume the premiership almost immediately. His united front holds an absolute majority of one seat in the 101-man lower house and will presumably be strengthened by 6 more votes when Bandaranaike appoints 6 additional members representing special interests as he is entitled to do. Thus, if the front remains united, it will continue to hold a majority even after the house has been raised to its full new strength of 105, following special

elections for four seats allocated to registered Ceylonese citizens of Indian and Pakistani descent.

In parliament, the 14 Trotskyite Nava Lanka Sama Samaja members, the majority of the 13 members from Tamil parties, the three Communists, and some independents would probably support Bandaranaike's announced policies of nationalization of foreign business holdings, Ceylonization of trade (a policy commenced by the ousted UNP), dissociation from power blocs, elimination of British bases and troops from Ceylon, and the establishment of diplomatic relations with the USSR and Communist China.

It is possible, however, that before Bandaranaike has the opportunity to implement these policies he will be seriously embarrassed by differences of opinion on the national language question.

The Language Issue

Under pressure from the Sinhalese-speaking Buddhist population of Ceylon, which constitutes between 70 and 80 percent of the total population and which was primarily responsible for Bandaranaike's elevation to power, Bandaranaike as one of his first items of business will probably have to seek a constitutional amendment making Sinhalese the sole national language. A two-thirds majority is required to effect such an amendment.

Since Bandaranaike's own Sri Lanka Freedom Party controls only 40 seats, he must necessarily have considerable outside

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support to carry an amendment. The 13 Tamil members of parliament will be automatically opposed to any policy which does not recognize both Tamil and Sinhalese as national languages. The Trotskyite Nava Lanka Sama Samaja and Communist parties, represented by 17 members, campaigned on a two-language platform. Some independents probably also favor two languages.

The 8 members of the defeated United National Party, who would probably seize any opportunity to cause Bandaranaike's downfall, might well oppose him on this point despite their party's one-language stand. Finally, the loyalty of the other members of Bandaranaike's united front is somewhat uncertain. Bandaranaike may therefore be faced with a bloc of at least 38 opposing votes, making it impossible for him to win the required 68.

Bandaranaike's only real opportunity to obtain a two-thirds majority would seem to lie in his altering the two-language stand of the 14 Nava

Lanka Sama Samaja members. His best chance to do so would be to offer the party at least two posts in his cabinet. It is doubtful whether Bandaranaike would be willing to pay this price or whether the Nava Lanka Sama Samaja Party would agree to participate in his government.

Other Issues

Considering his weakness on the language issue, Bandaranaike may move slowly until he has thoroughly tested sentiment in parliament, and he may not press immediately for measures nationalizing foreign holdings and ousting British forces from Ceylon. He may soon declare Ceylon a republic. However, he may for some time retain its Commonwealth status in view of widespread Ceylonese fears that India would attempt to fill the gap left by the British. He may also be slowed somewhat by recognition that Trotskyite, Communist and dissident Tamil members constitute one third of the total parliament strength.

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SOVIET EXPECTATIONS
FOR VISIT TO BRITAIN

During their visit to Britain, starting on 18 April, Khrushchev and Bulganin will probably want to hold conversations on trade and disarmament and will perhaps propose a friendship treaty with Britain, as well as restate the Soviet desire to take part in a conference on the Middle East. A Pravda statement of 9 April expressing the disappointment of the Soviet leaders that the British were limiting their

opportunities for contacts with British people suggests that a major goal of the trip is to make a favorable impression on the population as Malenkov did during his recent trip.

Soviet resentment over the British arrangements, which will keep to a minimum the number of cities and institutions the Soviet leaders will visit, had led Bulganin to suggest on 3 April that the trip

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be postponed. The next day, however, he agreed to Prime Minister Eden's request that he come as scheduled.

Topics for Discussion

The British have scheduled much of Bulganin's and Khrushchev's time for substantive discussions. Moscow, while expressing a desire for such talks, has given few clues as to the subjects it favors for discussion.

Disarmament will probably be the major topic stressed by the Soviet leaders. They will presumably seek to prove that the USSR's position has been brought close to the British stand, emphasizing particularly the similarity of the Soviet plan for a zone in central Europe subject to armaments limitation and inspection and the Eden plan presented at the summit conference. The Soviet plan assumes the continued division of Germany, and has been rejected by Britain as well as the United States on this ground. The Soviet leaders may use the occasion to make some additions to the 27 March Soviet disarmament proposal.

Bulganin and Khrushchev are likely to take a cautious attitude toward most of the issues that come up, being careful not to antagonize the British on such matters as colonialism and probably not making obvious efforts to weaken the Great Britain-United States alliance. Their interest in discussing various issues may be limited because of a belief that such divisive tactics would not be particularly profitable at this time.

With respect to the Middle East, one of the subjects the

British particularly want to discuss, the Soviet leaders will probably do little more than reaffirm their eagerness to take part in a conference on the area and their belief that the Baghdad pact is the real cause of tension there.

Possibly in preparation for discussions of the problem of Vietnam elections, a meeting was scheduled on 11 April between A. A. Gromyko and Lord Reading, representing the co-chairmen of the 1954 Geneva conference. The USSR has reportedly agreed to postpone the July 1956 date for all-Vietnam elections while pushing for a new Geneva conference on Indochina.

Bilateral Issues

There are few outstanding bilateral issues between Britain and the USSR. Premier Bulganin, in an interview on 11 April, said that the USSR was interested in expanding trade with Britain considerably, and in particular stressed the advantages that would result if Britain was willing to abandon strategic trade controls. Bulganin is likely to propose a friendship treaty such as that which he suggested to President Eisenhower. His second letter to the President on 1 February stated that the USSR was willing to conclude similar treaties with Britain and France.

The two sides should have no trouble in agreeing to increased cultural exchanges, although the USSR will probably resist, as it did at Geneva, any agreement to remove obstacles to the free flow of information such as the jamming of broadcasts. (Also see PART III, p.1)

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PART II

NOTES AND COMMENTSMAO'S STANDING IN CHINA UNIM-
PAIRED BY ATTACK ON STALIN

Although the Chinese Communists have joined in the attack on the cult of personality, they are not disposed to detract from the stature of Mao Tse-tung. The USSR does not appear willing to make an issue of the special treatment given Mao, although it would probably prefer to see less adulatory references to the Chinese leader.

A Chinese Communist editorial of 4 April, reprinted in part in Pravda on 7 April, was the first non-Soviet comment on Stalin to be published in the USSR, although Eastern European comments were available much earlier. This may reflect Soviet sensitivity to the Chinese attitude on the re-evaluation of the former Soviet leader. The Soviet leaders are probably aware of Western speculation on a Sino-Soviet difference on the question of Stalin and "collective leadership" and used this means to indicate unanimity.

While Peiping's explanation of the reasons for and the nature of Stalin's errors has generally followed Soviet propaganda treatment, the Chinese editorial implied that a comparable situation did not exist in China. The re-evaluation of Stalin was presented as primarily a Soviet problem without direct effect either on Mao Tse-tung's position or on fundamental Chinese Communist Party policies.

Importance of Individual Leaders

The Chinese editorial, while criticizing Stalin for putting himself above the masses, affirmed the importance of individual leaders. Peiping has justified its preferential

treatment of Mao in recent months on the ground that he above all other Chinese leaders "feels the pulse of the broad masses."

Since the Soviet 20th Party Congress in February, Peiping has almost completely eliminated references to Stalin and has divorced certain theories from his name and attributed them to Mao Tse-tung as the "outstanding leader in our party's theoretical work." This will almost certainly increase the great prestige which Mao already enjoys in China and among Asian Communists.

While devaluating Stalin, the Chinese Communist editorial, in some respects, treats Stalin more gently than the Russians have themselves. For example, the Chinese have emphasized more than the Russians the idea that Stalin and his teachings should not be condemned in toto. The Chinese editorial explicitly calls for "serious" study of the works of Stalin, especially those "correctly summarizing Soviet experience in construction."

Whereas Soviet speakers at the 20th Party Congress spoke of the achievements of the "Chinese Communist Party," the Chinese Communists continue to credit these achievements to the "directives of Mao Tse-tung" and speak of the Chinese party's central committee, "headed by Mao Tse-tung." At the reception given in Peiping on 7 April for visiting Soviet leader Mikoyan, Vice Chairman Chu Teh referred to "Mao Tse-tung and other leading personages of China." In his

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reply, however, the Soviet leader Tse-tung, as the "leaders of mentioned Chu Teh, Liu Shao-chi, the Chinese people." [redacted] Chou En-lai, and Chen Yun, collectively along with Mao [redacted]

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SATELLITES EXONERATE HIGH-LEVEL PURGE VICTIMS

The Soviet Communist Party's public disavowal of the last two decades of Stalin's one-man rule has opened the way to complete the program, begun in 1953, of reversing or modifying the charges brought against top-level Satellite Communists purged during the Stalin era. The degree of exoneration, however, will apparently vary. It will probably be complete only in those Satellites neighboring Yugoslavia, where the charges were primarily nationalism and conspiracy with Tito, and the major victims, like Rajk, were executed.

The Hungarian government announced on 29 March the complete exoneration of former foreign minister Laszlo Rajk and, according to unconfirmed reports, the Bulgarian central committee has exonerated former politburo member Traicho Kostov. Both men were tried and executed for nationalist deviation in 1949. In Poland, however, where the major victim, former party secretary general Wladyslaw Gomulka, is still alive, and in Czechoslovakia, where Titoism was a secondary charge against former secretary general Slansky, the regimes have already indicated that the victims will not be politically rehabilitated.

Effects in Satellites

This Moscow-inspired program will have a number of effects. Within the bloc, it adds a semblance of credibility to Communist claims that justice

and legality are being sincerely pursued in the post-Stalin era. It is also intended to encourage initiative among party members and to win greater popular support for the regimes. Externally, it supports Soviet objectives of making Communism more appealing to the non-Communist world, and is especially useful in encouraging Tito to increase his ties with the Soviet bloc.

While the original charges in the Satellite purges were contrived to meet Soviet propaganda needs at the time, in most cases the purges appear to have been at least in part the outgrowth of serious factionalism or struggle for power within the parties. This was almost certainly true of the major purges in Albania, Bulgaria, Czechoslovakia, and East Germany, and probably was an important factor in the Hungarian, Polish and Rumanian purges.

The trend of events in the last few months has already stimulated renewed factionalism within the parties. The regimes' repudiation of their past actions against former "nationalist" leaders is likely to give further encouragement to nationalist elements within the parties and complicate the present leaders' problems in setting limits on the criticism now being permitted.

The rehabilitations will increase unrest, particularly in the East German, Polish, and Hungarian parties where

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rank-and-file members are already confused over the recent attacks on Stalin.

In Hungary, where there was already strong nationalist opposition to party first secretary Rakosi's leadership, rumors are widespread that the "rehabilitation" of Rajk has caused prominent Communists to join in the increasing criticism of

Rakosi. Rakosi apparently still retains Moscow's support, however. In their message of greetings to the Hungarian leadership on the eleventh anniversary of the Hungarian liberation on 4 April, Khrushchev and Bulganin praised Rakosi as a "tested veteran of the revolutionary movement responsible for a number of important measures."

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BULGARIAN PREMIER'S POSITION IMPERILED

The Bulgarian Communist Party central committee's criticism of Premier Chervenkov augurs severe limitation on his powers, if not removal from his position as number-one Bulgarian political leader. The party secretariat has already been enlarged, and unconfirmed reports claim the central committee has voted to "rehabilitate" Traicho Kostov, a rival of Chervenkov's who was executed as a "Titoist" in 1949.

Any derogation of Chervenkov will please Tito. The Yugoslavs have long considered Chervenkov one of the most Stalinist of the Eastern European leaders. It has often been rumored that one of Belgrade's prices for further reconciliation with the Soviet bloc has been the political "heads" of such men as Chervenkov, and that Moscow is willing to pay this price.

Official Criticism

The Bulgarian party central committee resolution adopted during a plenum held from 2 to 6 April and announced on 8 April said that "the cult surrounding the person of comrade Vulko Chervenkov changed to a great extent the traditional and tested methods of work of the Bulgarian Communist Party, namely, internal party democracy and collective leadership." It said that this had at times led to unilateral decisions and hurt the "organizational, ideological, and economic work of the party and state."

While other Satellite parties in discussing the Soviet 20th Party Congress have said



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that the cult of personality had extended into their countries, the Bulgarians are the only ones to associate these admissions directly with their present top leader.

Present Leadership

After Stalin's death in 1953, the individual Satellite leaders who in most cases headed both the government and the party divested themselves of one post or the other in conformity with Moscow's line of instituting collective leadership. Most of them resigned as premier and retained party leadership, but Chervenkov preferred to exercise his authority formally as premier rather than as party first secretary, bossing the party from behind the scenes.

At the Bulgarian party congress in February 1954, Chervenkov formally relinquished the post of party secretary general and Todor Zhivkov, a relative nonentity, took over in the position. Chervenkov appeared to keep the party reins in his own hands, and he led the Bulgarian delegation to the Soviet 20th Party Congress in Moscow. However, Zhivkov, who did not even go to the congress, was the one to report on it at the recent Bulgarian central committee meeting. Although considered a Chervenkov man at the time of his appointment, Zhivkov may be used now as a relatively "neutral" element to modify Chervenkov's predominance in the regime.

One of the two new appointees to the secretariat, Encho Staikov, a politburo member, reportedly holds dual Soviet-

Bulgarian citizenship and has had a background in police and political indoctrination work. He may have been appointed to assure Moscow a check on future activity in the party, even though Chervenkov himself has always been known as a good, loyal "Muscovite." The other new member, Boyan Bulgaranov, apparently represents the other major Bulgarian party group, the "nativists," who spent the war years in Bulgarian partisan activity rather than in Moscow. The choice of these two men, therefore, appears in part to be an attempt to please each of the two basic groups within the party.

Problems of Succession

Chervenkov may, of course, be completely demoted. An extraordinary session of the Bulgarian National Assembly, set for 16 April, will probably approve some changes in the government structure and may be used to effect Chervenkov's ouster.

In this event, the existence of factions in the Bulgarian party might complicate the problems of finding a successor for Chervenkov. The present number-two man, Deputy Premier Anton Yugov, is a "nativist." Moscow and the Moscow-oriented elements of the Bulgarian party may feel that making him premier would encourage "nativist" elements to set an overly independent course for Bulgaria. To keep this group within bounds, an attempt may be made to set up a "collegial" system spreading power among several including Yugov and possibly a "re-

formed" Chervenkov.

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NEW "LIBERALISM" IN POLAND

Poland has officially gone further than any other Satellite in its interpretation of the downgrading of Stalin. Polish public information media regard the Soviet 20th Party Congress as "a denial of slavish adherence to formula" and as promoting a new liberalism in numerous fields. The abundance and intensity of the Polish comment probably reflect Polish nationalist resentment of Stalin and the regime's eagerness to place the blame elsewhere for measures which have proven unpopular.

The Poles, in their enthusiasm to cast off the restrictions of Stalinism, have called for "youth...thinking independently," public debate, especially in parliament, and greater freedom and independence in the arts. Premier Cryankiewicz, calling for a new period of "bold and creative ferment" at a national conference of architects, stated that "the past two decades have been fatally weighted down by the painful distortions which grew...from the omnipotence of Stalin, who usurped the position of final authority in all fields, not only architecture, but also science, literature and art."

Laws and Enforcement

Another call for more creative activity and independent thought was made in several recent broadcasts which criticized the unanimity of voting in the Polish parliament (Sejm) and demanded public discussions and clashes of view in order to reach correct conclusions. Jerzy Rawicz, writing on 31 March in Trybuna Ludu, the official organ of the Polish United Workers (Communist) Party, attacked the formula that since "there are no fundamental

antagonisms in the Sejm, all the deputies should not discuss, but vote unanimously."

In an article on the trade unions, Trybuna Ludu deplored the fact that "the labor laws in our country are systematically violated."

The new liberalism also has called for a return to the rule of law to replace "the lack of supervision over organs of government."

Another example of the criticism of the regime was an open letter, published in Zycie Warszawy on 28 March, which stated that many people who had been sentenced to long prison terms for high treason were being released without the public being informed of their "rehabilitation in the eyes of justice." The letter called on the minister of justice to remedy the situation so that these men would be rehabilitated in the eyes of society as well.

This letter set the stage for the regime's announcement on 6 April that former party secretary general Gomulka, purged in 1949 for "nationalist deviations," has been cleared of "unfounded accusations," though no change has been made in "the correct thesis of political and ideological struggle which the party... continues to conduct against the false ideological conceptions represented by Gomulka." In addition, other purged officials, including Generals Komar and Spychalski, have been exonerated.

Problems for the Leaders

The Polish regime is faced with the task of curbing the Poles, who have always been

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highly nationalistic, while it propagates the new liberalism. The party may hope to placate nationalist elements by ostensibly adopting more liberal internal policies.

The party leadership, however, has reportedly been plagued by serious factionalism, and a

group opposed to the politburo is said to have been gaining in strength since Beria's downfall. In addition, large segments of the party are sympathetic to the views of Gomulka, whose exoneration can only serve to bolster opposition to the present leadership.

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MIKOYAN IN COMMUNIST ASIA

Soviet first deputy premier Anastas I. Mikoyan completed his trip through Asia with brief stops in Peiping and Ulan Bator, arriving back in Moscow on 10 April where he will probably take over while Bulganin and Khrushchev are in London. Mikoyan, as number-three man in the Soviet hierarchy, once before "tended the farm"--as Bulganin put it--while Bulganin and Khrushchev were at the Geneva conference last year.

The last phase of the trip was highlighted by the signing of agreements with China which committed the USSR to further support of Chinese Communist economic development.

These agreements had been initially negotiated in Moscow and were probably completed before he arrived. They supplement those signed in 1953 and 1954.

One calls for the construction and equipping of 55 new industrial enterprises in China in addition to the 156 enterprises for which the USSR is already committed. Among these new enterprises are metallurgical plants, machine-building plants, synthetic fiber and plastics factories, enterprises for "electrical technique and radio technique industries,"

factories producing synthetic liquid fuel, power stations, and "scientific research institutions for the aeronautical industry."

The other agreement provides for the opening in 1960 of a new railroad linking China and the USSR--the 2,000-mile Lanchow-Aktogai railroad through northwest China.

The total value of new Soviet assistance is equivalent to 2.5 billion rubles. No loan appears to have been granted to finance this sum, which is to be defrayed "through trade procedures." The new commitments, while not increasing the annual level of Soviet support to China, will extend support well into China's Second Five-Year Plan (1958-1962).

The Soviet-Mongolian communiqué signed by Mikoyan on 8 April provides for "long-term credits on easy terms" to Outer Mongolia. Soviet aid is to include assistance in residential construction and the construction of public utility and other enterprises. Agreement was also reached on the transfer of two narrow-gauge railroads to the Soviet-Mongolian Joint Stock Company of the Ulan Bator railroad and on joint geological surveys.

(Prepared jointly with ORR)

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LAOS

In the expected absence of any solution to the Pathet Lao problem resulting from this month's meeting of the Geneva co-chairmen--Britain and the USSR--the Laotian government may decide to see what a direct meeting with the Viet Minh can produce.

The Indian chargé in Vientiane has been trying to arrange for Premier Souvanna Phouma to make a courtesy visit to Hanoi. He feels the Viet Minh might "persuade" the Pathets to accept the government's authority in the two northern provinces in return for a pledge not to enter any military alliances or to admit any foreign military personnel into Laos. Viet Minh terms would presumably include the elimination of American influence.

Souvanna Phouma has declared he will treat with "great circumspection" any Communist approach, but he is apparently pleased by the friendly treatment of his

government in Chinese Communist and Viet Minh propaganda. Moreover, he has agreed in principle to a Pathet Lao proposal to reopen political negotiations, thus backing away from the government's previous position that negotiations must be preceded by Pathet Lao acceptance of the control commission's 7 January resolution, which called for prompt restoration of the government's authority in Phong Saly and Sam Neua Provinces.

Meanwhile, intensified military action may occur at an isolated government post in Sam Neua Province. The presence of a truce team at the post since last June has served to protect it, but Polish members of the team have withdrawn after being threatened by government troops. If they do not return, the Indian and Canadian members will have no basis under the Geneva agreement for staying. The government has alerted commando units to reinforce the post, a symbol of its determination to maintain a foothold in the north.

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JAPANESE-SOVIET RELATIONS

The USSR, in response to a Japanese request, has agreed to talks on the fisheries problem either in Tokyo or Moscow. Foreign Minister Shigemitsu expects the negotiations to begin shortly in Moscow and has selected a delegation of government officials and private fisheries representatives.

Interim Agreement Possible

The USSR will probably limit the talks to the question of its restrictions on salmon fishing which become effective

on 15 May rather than discuss the larger question of a general fisheries settlement. Moscow has consistently made a general fisheries settlement conditional on the conclusion of a peace treaty. The USSR will probably be prepared to present an interim regulation agreement on salmon fishing in terms that will be extremely adverse to Japan.

It is possible the USSR will make any fisheries settlement conditional on Japanese agreement to establish diplomatic

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relations. Any temporary arrangement would reduce somewhat the pressure on the Tokyo government from Japanese fishing interests for an early peace treaty, but the unilateral nature of the Soviet restrictions is likely to remain a source of dissatisfaction for the Japanese.

In view of Moscow's resistance on the repatriation issue, which the Hatoyama government has proposed also be discussed apart from the peace talks, there may be some disposition in Tokyo to soften Japanese territorial demands to obtain a settlement on fishing and repatriation.

Japan May Be Conciliatory

Meanwhile, Japanese chief negotiator Matsumoto, who returned to Tokyo following the

suspension of the London talks, has publicly hinted that it may be desirable to take a "practical view" of the situation. He has referred to Japan's weak power position, the improbability of American support or of further Soviet concessions on the territorial issue, and the Soviet refusal to settle the fishing and repatriation problems without a peace treaty.

The Japanese negotiator stated, "We may have to do some things even more unpopular than Jutaro Komatsu once did," a reference to concessions by the Japanese negotiator at the peace conference after the Russo-Japanese War of 1904-1905. Matsumoto says he is willing to wait for a "very powerful leadership" to "reshape public opinion and carefully align the public attitude toward the negotiations."

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SCANDINAVIAN-SOVIET
AIR AGREEMENTS

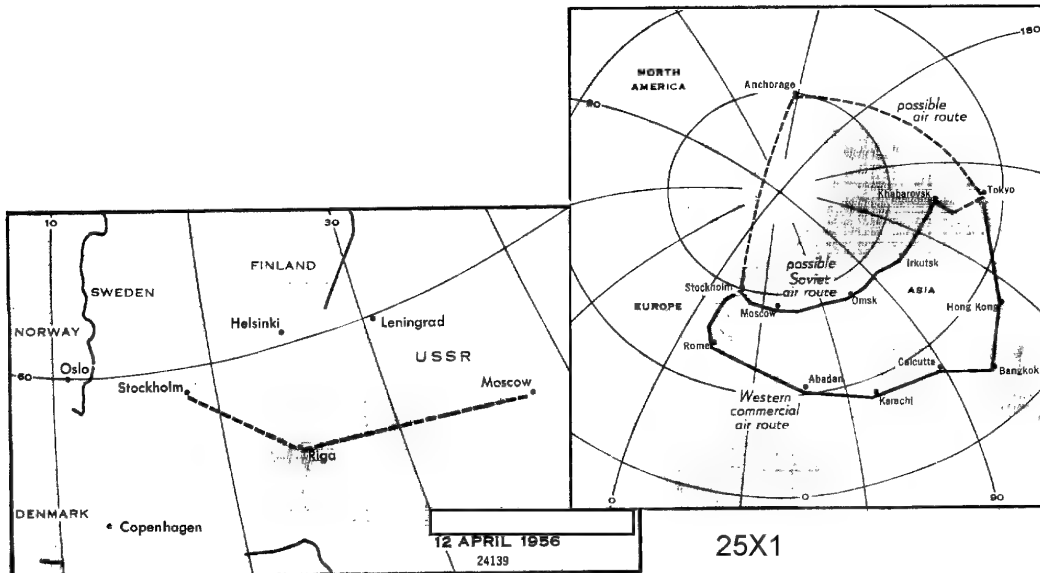
The bilateral civil air agreements between the Soviet Union and Sweden, Norway and Denmark signed on 31 March are the USSR's latest move in the establishment of direct scheduled air flights between Moscow and the West. A concurrent agreement was reached between the Scandinavian Airlines System (SAS) and Aeroflot, the Soviet civil air organization, presumably implementing the bilateral agreements.

Details concerning rates and flight schedules will be worked out in a forthcoming conference between SAS and Aeroflot representatives. An SAS spokesman said his company may provide daily connections with Moscow beginning in May, although the American embassy in Stockholm reported that the agreement called for SAS to operate two flights weekly in each direction. Apparently, the agreement provides for flight service

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which will result in a rough balance of seating capacity between Aeroflot and SAS.

Both lines will use two-engine conventional-powered aircraft. Riga, the only stop en route to and from Moscow, is to be a "technical" stop for purposes of maintenance and refueling only. SAS representatives will be located in Riga and Moscow and an SAS commercial office in Moscow is planned.

The volume of traffic is uncertain despite the SAS contention that the traffic with Russia is "increasing rapidly both ways." The Finnish airline, currently the only non-Orbit line operating into Moscow, has found that the traffic between Helsinki and Moscow will support no more than token flights.

Besides Finland, three other non-Orbit countries--Yugoslavia, Austria and Afghanistan--have negotiated civil air agreements with Moscow. However, these countries either do not have aircraft capable of making regular passenger flights into Moscow or have

made no moves to implement the agreements.

Advantages for USSR

The agreement with SAS has given the USSR access to civil air routes outside the Orbit which will enable Soviet pilots to gain valuable experience. In return it has given to SAS--an airline with major world air routes--rights for overflights of Soviet territory. As it gains experience and adds new equipment, the USSR will be in a position to capture more passenger traffic and to expand its services to more routes. Moreover, the USSR controls the shortest air route from Europe to the Orient, which it can use as a bargaining point for further agreements with Western countries.

The route from London to Tokyo via Moscow, for example, is over 1,000 miles shorter than the polar route via Greenland and the North American continent and some 3,000 miles shorter than the India-Pakistan route. (Prepared by ORR)

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LYSENKO'S REPLACEMENT

The release of T. D. Lysenko from his post as president of the All-Union Academy of Agricultural Sciences "at his own request" would appear to administer the coup de grace to Lysenko's biological and agricultural theories, the best known of which claimed that changes in environmental conditions could alter hereditary characteristics of plants. The latter hypothesis, which received Stalin's wholehearted approval because it appeared to confirm Marxist doctrine, has long been denounced by Western geneticists and has been officially discounted in the Soviet Union since Stalin's death.

Lysenko himself has been the target of frequent Soviet criticism over the past three years but appeared to be surviving the downgrading of his theories. He still retains his post as director of the Institute of Genetics, as well as membership in the Academy of Sciences and the Academy of Agricultural Sciences, but it is clear that his over-all influence in the agricultural field has been broken.

Lysenko's doctrines have had a profound influence on Soviet biological and agricultural research for more than a decade, and even though these doctrines may now be abandoned, considerable harm has been done to the generation of scientists trained according to his precepts. The application of his theories undoubtedly hindered the development of improved varieties of agriculturally important plants. Soviet geneticist N. P. Dubinin recently blamed Lysenko for blocking earlier Soviet attempts to carry out a hybrid corn breeding program and now the

USSR has officially requested permission to send a delegation of scientists to study American corn breeding techniques. Lysenko's removal will probably accelerate a return by Soviet scientists to beliefs and techniques in the fields of biology and agriculture generally accepted in the West.

Personnel Shifts

Lysenko was succeeded in the agricultural academy post by P. P. Lovanov, former minister of agriculture in the Russian Republic (RSFSR), who was promoted to USSR deputy premier in the post-Malenkov reorganization in February 1955. He acted as Khrushchev's principal assistant in agricultural matters until after Matskevich was appointed Soviet minister of agriculture in October 1955. Since then Lovanov's political fortunes have waned; he was the only deputy premier not elected a full member of the party's central committee at the 20th Party Congress in February 1956.

Lobanov is not a scientist by training and his career has been almost exclusively in the field of agricultural administration. In a speech in April 1955, Lobanov described the mission of agricultural scientific institutes as improvement of practical work rather than abstract theorizing. He has been particularly active in the past three years in connection with the Soviet party and government efforts to increase agricultural production. His public statements and articles reflect a special knowledge of and concern for the problems of agricultural mechanization.

Agriculture Minister V. V. Matskevich, who previously worked under Khrushchev in the

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Ukraine, was promoted to the vacated deputy premier's slot. He will apparently continue as agriculture minister and assume over-all direction of the agricultural complex in the council of ministers. In the

opinion of the US agricultural attaché in Moscow, Matskevich will probably be a stronger and more dynamic agricultural overlord than Lobanov.

(Prepared jointly with OSI; concurred in by ORR)

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SOVIET IMPORTS OF ALUMINUM ORE

Current Soviet efforts to obtain substantial amounts of bauxite from Greece and Yugoslavia suggest that in the future the USSR may become partially dependent on aluminum ore from outside the Sino-Soviet bloc. Unless new internal sources of bauxite are developed soon, Soviet bloc supplies will be inadequate by 1960 to support the USSR's planned aluminum production.

The Sixth Five-Year Plan calls for Soviet production of an estimated 1,100,000 metric tons of aluminum a year by 1960 --about double 1955 production. This will require at least 4,500,000 tons of bauxite annually.

The USSR will produce an estimated 1,200,000 tons of bauxite in 1960, and will probably be able to import about 1,600,000 tons from Hungary and another 200,000 tons from Rumania, leaving a deficit of about 1,500,000 tons a year. The USSR is now using only about 2,000,000 tons a year, but it is attempting to cope with the anticipated deficit in three ways. It is engaged in intensive exploration for new deposits of bauxite; in a large-

scale research program to produce alumina from other ores; and in efforts to increase imports from the free world.

The USSR had obtained only negligible quantities from Greece until last year. In the second half of 1955, however, it took delivery on 100,000 tons, and asked permission of the Greek government to purchase an additional 300,000 tons during a 17-month period beginning in August 1955. It has indicated a willingness to purchase from 400,000 to 800,000 tons a year for the next three years.

Under the terms of the Yugoslav-Soviet trade agreement signed on 6 January, Moscow will import 100,000 tons of bauxite and 2,000 tons of alumina this year. According to an unconfirmed report, Moscow has requested an additional 800,000 tons of bauxite. Reported Soviet willingness to pay as much as 20 percent more than Italy and West Germany for high-grade Yugoslav ore indicates the pressing Soviet need for the ore.

(Prepared by ORR)

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NORTH AFRICA

Algeria

Military operations in Algeria are increasing in scope and intensity as the build-up of French security forces continues. [redacted]

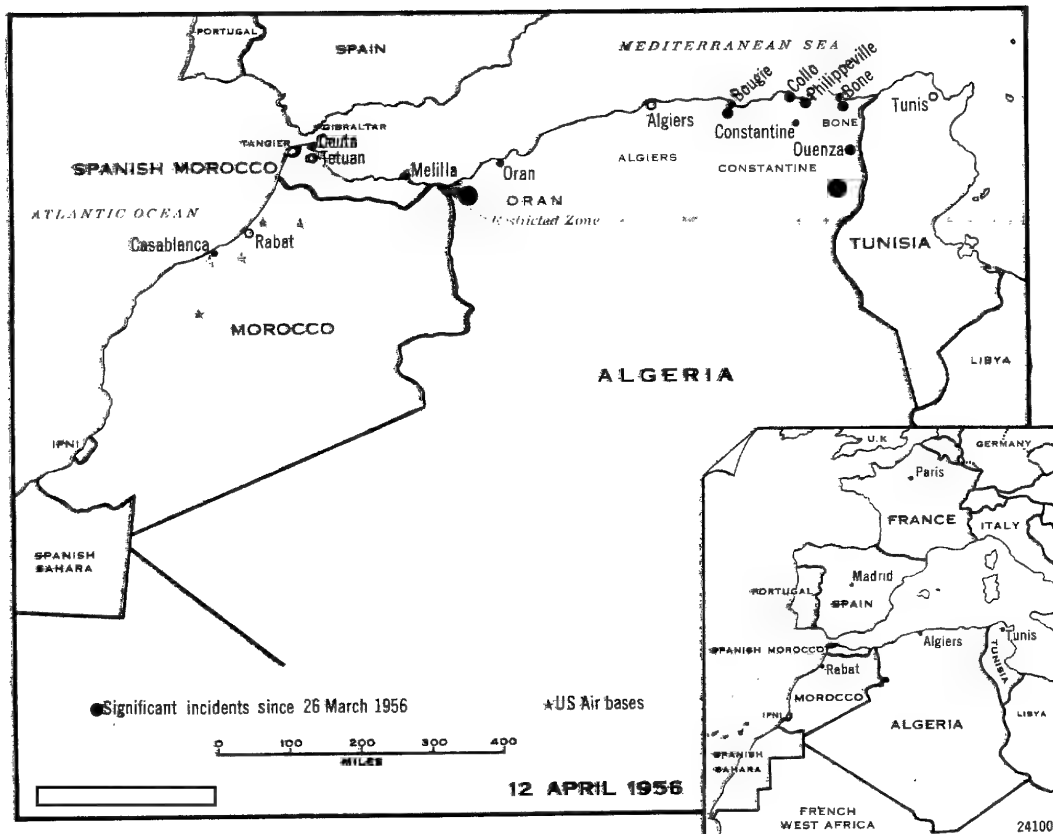
[redacted] the rebels in recent engagements have revealed better arms and discipline than in the previous hit-and-run fighting.

In the western area, France has evacuated 5,000 persons from a "no-man's land," in an effort to control more effectively rebel traffic across the Moroccan border.

Meanwhile, France is transferring to Algeria up to 40,000 men from units in Germany and French West Africa. These reinforcements, it is estimated,

will boost French ground strength to approximately 230,000 men before the end of April.

On 11 April the French cabinet endorsed Minister Lacoste's request for still more substantial reinforcements by approving a decree permitting military authorities to recall up to 200,000 men from the "ready reserve" as needed. Reportedly, the initial orders will go out immediately in order to get reinforcements of 70,000 to 80,000 to Algeria by the end of May. Naval forces in North African waters have also been augmented and brought into combined tactical operations for the first time, and additional air power has been transferred to Algeria.

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diplomatic posts, as well as for budgetary reasons, the number of such establishments will initially be small, possibly limited to Paris, Washington, London, Cairo, and Madrid.

A three-day strike of several thousand Moroccan and European workers at the four American air force bases allegedly had the full endorsement of the Istiqlal party and the sultan, who believed it necessary to demonstrate to the United States the urgency of Moroccan labor demands. The strike was ended on 11 April, however, without the fulfillment of any of the 14 demands of the pronationalist Moroccan Union of Labor (UMT).

French Morocco

Moroccan negotiations with the French to define the terms of "interdependence" between two countries are likely to be complicated by an increasing Moroccan involvement in Algerian matters. The issue of aid to Algerian nationalists will probably arise in connection with the formation of a Moroccan army, which is the most immediate issue facing Moroccan and French negotiators. France has proposed an army of 20,000 soldiers, formed largely by the transfer of Moroccan units now in the French army and staffed and trained by France. Spain wants to participate in staffing and training this army and the Moroccans insist that the few Moroccan officers occupy key posts.

The increasing number of countries which have recognized Moroccan independence was swelled this week by the Chinese People's Republic and Iraq. The sultan, who has not yet named a foreign minister, is expected to appoint Abderahim Bouabid, prominent Istiqlal leader and now minister of state in the Moroccan government, to head a foreign ministry. Because there are few Moroccans qualified to staff

Spanish Morocco

The Madrid conversations resulting in the 7 April declaration proclaiming the independence of the Spanish protectorate of Morocco were reported to have been "stormy." Many troublesome issues were left unsettled, including the future of the Spanish enclaves of Ceuta and Melilla, whose return was requested by the Moroccans. The Spaniards tried unsuccessfully to obtain Moroccan agreement to a condition that the transfer to Morocco of full powers in the Spanish zone follow the achievement of "genuine independence" of the French zone.

All indications point to further rough going when negotiations are resumed on 7 May. Spain will make every effort to have a voice in Moroccan affairs and a position in a united Morocco equal to that of France.

Tunisia

The newly created Tunisian Constituent Assembly unanimously

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élected Habib Bourghiba, moderate leader of the Neo-Destour party, as its president during the inaugural ceremony on 8 April. Subsequently, Bourghiba was asked to form a new government to succeed the caretaker cabinet of Premier Tahar ben Ammar, which resigned on 9 April.

By emerging from the wings to the center of the stage of Tunisian politics, Bourghiba may hope both to recapture the elements of the Neo-Destour party which have looked to extremist Salah ben Youssef for leadership and to play a more dominant role in current negotiations with France. Bourghiba has adopted a less conciliatory attitude toward France since the 20 March declaration of Tunisian

independence, and is now likely to press harder for more favorable terms for Tunisia when negotiations with France are resumed in mid-April.

Tunisian minister of interior Mongi Slim has been conferring in Paris with Minister of State Savary on the transfer of internal security powers to the Tunisians. The French cite the need for protecting French nationals in Tunisia as the main objection to transferring control over security matters to the Tunisians. The acting high commissioner in Tunis recently informed the American consul general that terrorist activities in the south and west may soon reach such proportions that French inhabitants will have to be evacuated.

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TURKEY'S ECONOMIC SITUATION

Turkey's worsening economic situation is characterized by serious inflation and a desperate lack of essential goods and raw materials. The government is apparently divided on whether to devalue the currency, and a new cabinet crisis may develop over the issue.

The public debt has passed the billion-dollar mark, and foreign trade has reverted to its usual deficit position following a small surplus in January. The cost of living, which rose 5 percent during the last quarter of 1955, continues to climb, reflected especially in food prices. Shortages of raw materials and spare parts have forced many industries to lower production. Metallurgical industries have been operating at 10-20 percent of capacity, and textiles and cement, at about 80 percent.

Prime Minister Menderes, Secretary General for Economic Affairs Esenbel, and Ambassador Gork are still pushing for a large US loan, which they regard as a badly needed "shot in the arm" because of the country's critical cash position and inability to meet demands for consumer goods. These officials continue to oppose devaluation, although there is growing support within the government for taking some action on the exchange rate. American representatives in Ankara believe immediate action on devaluation and debt funding is essential.

Reaction to Soviet Offers

The Turkish government continues to rebuff Soviet economic aid offers, but it is alarmed over the cumulative effect of Soviet propaganda on

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public opinion. Many deputies are said to be demanding an explanation from Foreign Minister Koprulu of why, in view of its desperate economic plight, Turkey does not accept Soviet aid offers.

The Turkish people are traditionally anti-Russian. However, if they were to lose confidence in the government's ability to provide the basic necessities of life, they would become increasingly

vulnerable to Soviet blandishments and propaganda.

Possible Cabinet Crisis

The reported resignation of Minister of Economy Ulas in protest against Menderes' interference in the affairs of his ministry may presage another cabinet crisis over the economic situation. Unusual political activity throughout Turkey during the past month suggests the possibility of a new political alignment.

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EFFECT OF STALIN REPUDIATION ON THE ITALIAN LEFT

The Soviet leaders' repudiation of Stalin appears to have had more impact on the Italian left than on any other left-wing group outside the Sino-Soviet bloc. The turmoil within the Communist and Nenni Socialist parties has threatened unity within both parties and may be weakening their alliance. The Italian local elections on 27 and 28 May are likely to find party leaders Togliatti and Nenni competing with each other for leadership of the left.

Togliatti's Problems

Togliatti, challenged by his colleagues for subservience to Moscow, appears to be on the defensive, and the American embassy in Rome reported on 23 March that the Communist Party was undergoing a real crisis. Although Togliatti has since secured a somewhat equivocal retraction of criticism from his prominent party colleague, Senator Terracini, and has apparently brought other critics back into line, the embassy comments that Togliatti's attempts to control the party may well lead to new dissatisfaction.

Nenni's Tactics

Togliatti's problems have been further complicated by the statements of Nenni, who is striving to reconcile the pro- and anti-Stalin elements within his own party. In the 26 March issue of the Socialist Party organ *Avanti!*, Nenni commended Togliatti as the only Communist leader defending those aspects of Stalin which made him a historic and heroic figure. At the same time, however, Nenni emphasized that his own party, contrary to the Communists, had consistently expressed reservations with regard to certain of Stalin's policies.

In an earlier *Avanti!* article, shortly after Togliatti's return from the Soviet 20th Party Congress, Nenni in effect invited the Communists to debate the causes which had led to the "cult of personality" in the USSR. In the same article, Nenni said that "Communist errors" were responsible for the split in the Socialist movement during the early 1920's.

Togliatti has apparently tried to side-step such a debate, and did his best, according

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to the American embassy in Rome, to suggest in his 13 March report to his party's central committee that the Communists would remain "at the head of the working class" and that the unity-of-action pact with the Nenni Socialists would not be broken.

Election Outlook

The differences between Togliatti's and Nenni's statements have aroused wide speculation in Italy as to their joint and respective fortunes in the communal and provincial elections in May. The American embassy in Rome believes the Communists may lose some votes

to the Nenni Socialists, and Togliatti evidently considered it necessary to urge his followers on 3 April not to shift to Nenni.

Meanwhile, center and left-of-center parties are concentrating their attention on Nenni. Republican deputy La Malfa has suggested to his party that a meeting ground between the center and the Nenni Socialist Party, "which cannot be regarded as a totalitarian party" may now exist. The Social Democratic directorate published a statement on 31 March challenging Nenni to break with the Communists and subscribe to the principles of the Socialist International.

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WEST GERMANS FEAR DISARMAMENT
MAY OVERRIDE UNIFICATION ISSUE

West German officials and the press are displaying sensitivity to statements suggesting that agreement can be reached on disarmament or any other important East-West issue on the basis of a continuing division of Germany.

Prior to the opening of the UN subcommittee meetings on disarmament in London on 19 March, both the government and opposition in Bonn approved of disarmament as a possible road to German unification. The press, however, was already voicing concern that "German unification might be sacrificed on the altar of disarmament." In recognition of these fears, the Bonn government arranged to be kept fully informed if issues concerning Germany were discussed in London.

Mollet's "US News" Interview

On 3 April, the Bonn government was unpleasantly surprised by French premier

Mollet's statements in US News and World Report criticizing Western policy and proposing that disarmament be put on the list of international business ahead of German unification. The next day Soviet leader Khrushchev publicly endorsed Mollet's remarks, and expressed the view that German unification was not necessary to world peace.

Bonn issued a statement protesting Mollet's remarks and declared that "no German government will be prepared to discuss seriously proposals for the relaxation of tensions based on even the temporary division of Germany." The German ambassador in Paris pointed out to Mollet that such serious matters should be co-ordinated in advance among the Allies. Bonn described Khrushchev's views as "completely unrealistic." On this last point, the opposition Social Democrats, who had professed to see in Mollet's position a "way out of the blind alley," expressed complete agreement.

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General Gruenther Misquoted

Bonn's apprehensions about Western policy were heightened when General Gruenther, supreme Allied commander in Europe, was incorrectly quoted in the West German press as having said that NATO strategy was based on an initial withdrawal from Germany in the event of attack. Responsible West German papers asserted that if this report was correct, "Allied headquarters will have

to think of a new plan."

Although Mollet has since assured Bonn there is no change in French policy and he feels there can be no secure peace without German unification, Chancellor Adenauer apparently is anxious for a meeting with the French premier to seek further reassurance of Western solidarity on this issue.



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PART III

PATTERNS AND PERSPECTIVESBRITISH POLICY TOWARD THE USSR
ON THE EVE OF THE BULGANIN-KHRUSHCHEV VISIT

The British government, which has for some months shown increasing concern over the new tactics of Soviet foreign policy, is treating the 18-27 April visit of Bulganin and Khrushchev as primarily an opportunity to probe Russian intentions, particularly with reference to the Middle East.

The recently concluded tour of ex-premier Malenkov and the preparations for the Bulganin-Khrushchev visit have focused the British public's attention to an unusual extent on relations with the USSR. Advance arrangements have been extensively debated in the press and by the public; but except among fellow travelers and some Bevanite elements, there so far appears to be no inclination to assume that Soviet policy has undergone more than a tactical change. The arrival of security chief Serov to make advance preparations for the visit was generally considered as confirming this.

The efforts of certain Eastern European refugee groups to organize hostile demonstrations have received no important support from either Labor or Conservative Party circles, however, and the US Information Service in London believes Malenkov's performance as goodwill ambassador, which occasioned favorable press comment at a ratio of more than two to one, greatly smoothed the way for Bulganin and Khrushchev.

Re-examination of USSR Policy

This surge of public interest in relations with the USSR has been paralleled in government circles by an extensive re-examination of Soviet policy, starting with the Czech-

Egyptian arms deals last September and becoming more intensive after the 20th Party Congress in February.

The Foreign Office was particularly disturbed by the Soviet entry into areas of traditional British influence as signalized by the Middle Eastern arms deals and the Bulganin-Khrushchev visit to India and Burma. It saw these moves as meaning that Moscow, though repudiating full-scale war as an instrument of national policy, was still bent on Communist expansion through ways that might lead to war.

The Soviet policy of competitive coexistence through the use of economic enticements to underdeveloped areas is seen by London as offering a special threat to its own position in these areas because of Britain's present economic inability to compete in kind. As a result, Britain has been informally trying to interest the United States in expanding economic aid programs, particularly to the Baghdad pact countries. British officials have also been seeking ways in which London can regain the initiative on the diplomatic front.

Several aspects of the 20th Party Congress caused British officials special concern. One was the statement that there was more than one way of achieving socialism--and indeed the emphasis on "socialism" rather than "communism." This line, British officials fear, will be particularly seductive in colonial areas and in neutral or uncommitted countries.

Another aspect was the de-emphasis of Stalin in favor

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of Leninist collective leadership. One official saw this line as likely to delude segments of the British public, and stated that the Foreign Office planned a campaign to expose the dangers of Leninism.

Prime Minister Eden evidently shares the Foreign Office worries. In mid-March he reportedly gave French premier Mollet his "personal estimate" that the present Soviet diplomatic and economic tactics are even more dangerous than those in use when NATO was established.

Attitude Toward the Visit

Against this background, the British government evidently sees the Bulganin-Khrushchev visit, initiated at the summit conference last July, as both a diplomatic opportunity and a propaganda hazard.

Every effort is being made to keep the visit as much as possible in a purely diplomatic context, avoiding the "triumphal tour" aspects which characterized Bulganin's and Khrushchev's visit to India and Burma and Malenkov's trip to Britain. Of the eight full days in their scheduled stay, three provide for talks at 10 Downing Street and two others for dining with Eden--one of them including an overnight stay at the Chequers estate. A trip to only one important industrial center, Birmingham, will be made. At the same time, the Foreign Office has endeavored to dissuade the leaders of Eastern European refugee groups from causing any disturbances, and London twice sought to dissuade Moscow from sending Serov to superintend the security arrangements.

Diplomatically, on the other hand, Britain has evidently tried to capitalize to some extent on the fact that it

is the first Western country to receive the top Soviet leaders. Possibly seeing some parallel with the 1954 Geneva conference where he won great prestige as a "bridge" between East and West, Prime Minister Eden discussed the impending visit with French premier Mollet during their 10-11 March conference. Foreign Secretary Lloyd will report on it afterward to Mollet and Foreign Minister Pineau before they undertake their own trip to Moscow.

Conduct of the Talks

In the talks themselves, Eden and other top leaders seem to see mainly an opportunity to probe the intentions and mutual relationships of the top Soviet leaders. This idea was an important part of Churchill's original 1953 proposal for summit talks and has appeared again in the comments of some of the British leaders--mainly on the Labor side--who talked with Malenkov. There is also a general British hope of correcting at least some of the Soviet leaders' dangerous misconceptions about the West.

The agenda for substantive discussions is extremely loose, and the British have emphasized that they have no intention of turning the "serious talks" into negotiations on any question of multilateral interest. Topics of bilateral concern mentioned by the Foreign Office official arranging the details of the visit include such matters as radio jamming and cultural exchanges.

British officials have made clear, however, that they hope for an exchange of views on several matters of key importance, presumably including the Middle East situation.

While Britain apparently has no proposals to offer, it would be interested in any

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Soviet overtures that would appear to lessen the prospects of war between Israel and the Arab states.

The British also anticipate a serious exchange of views on disarmament. As of late February, the Foreign Office expected the Russians to offer a new friendship treaty--which Britain planned to reject on the grounds that there had been insufficient time since their 1955 abrogation of the 1942 pact, to see how coexistence worked.

Nervousness About US Attitude

Several recent remarks by British officials about the Bulganin-Khrushchev visit have indicated some anxiety lest Anglo-American co-operation be

imperiled by too great an aura of "good will" toward the Soviet guests. The British ambassador in Moscow, for example, in telling his American colleagues of London's advice that Serov be kept at home, remarked that he hoped the Russians would send Serov anyway as a "grim reminder" of Soviet reality.

Foreign Office officials have expressed to the American embassy in London a hope for some "clumsy" Khrushchev remark that would serve to further cement Anglo-American solidarity. They have even suggested that Eden intends to receive the Russians as leaders of a hostile state--a plan scarcely compatible with the schedule prepared for them.

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INDIAN ATTACKS AGAINST PAKISTAN SYMPTOMATIC OF NEHRU'S HOSTILITY TO SEATO AND BAGHDAD PACT

Indian prime minister Nehru's antagonism to Western-sponsored defense alliances in Asia appears to be expressing itself in a tougher policy toward Pakistan, a member of both SEATO and the Baghdad pact. Increased Indian pressure on Pakistan--especially over the explosive Kashmir issue--may result in intensified efforts by Pakistan to force the West to choose between it and India.

The Tough Policy

Nehru has from the beginning campaigned vigorously against Western defense alignments in Asia. Although he made it clear in 1954 that he felt American military assistance to Pakistan had "introduced

a new element" into Indian-Pakistani negotiations on Kashmir, he did not until recently translate his anger into action.

In the first three months of 1956, India apparently initiated a series of incidents along its borders with Pakistan. The incidents were timed to coincide with the SEATO council meeting in Karachi between 6 and 8 March and were followed by Indian charges that American weapons were being used by the Pakistani forces involved. On 29 March, Nehru made a blistering 90-minute speech in the Indian parliament attacking SEATO and the Baghdad pact and denouncing Pakistan's claims to Kashmir.

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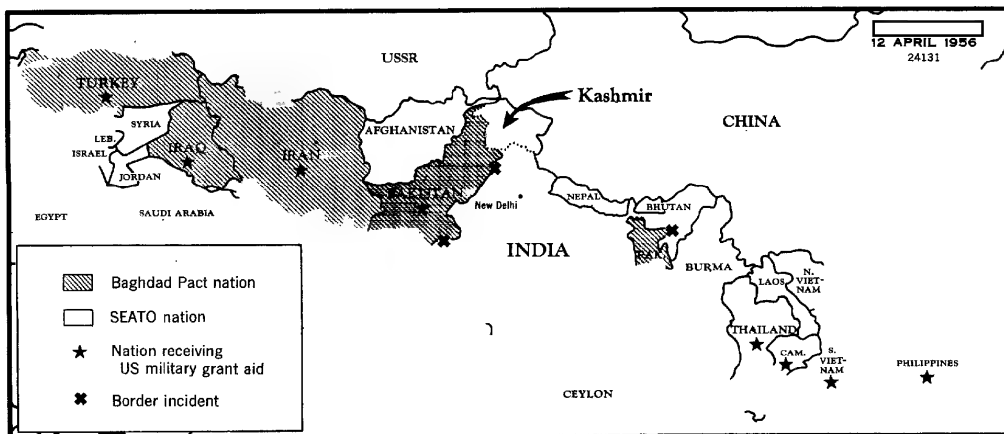
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He reaffirmed his statements in a press conference on 2 April.

Probably inspired by the SEATO council's reiteration of support for a settlement of the Kashmir issue through the United Nations, Nehru stated that a plebiscite was not possible at this time and virtually ruled out solution of the Kashmir problem on any but India's terms. While Indian obstructionism on a Kashmir

militarily, despite American military assistance to Pakistan.

While Moscow attempts to convince members of SEATO and the Baghdad pact that their association works economic hardships, India can demonstrate that there are also political disadvantages. Thus, Nehru can profit from the Soviet campaign against the pacts without associating himself with it directly. New Delhi also appears to be encouraging Egypt



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plebiscite is not new, Nehru's categorical statements served notice that India would not attempt to reach a solution.

Meanwhile, India has encouraged an exodus of Hindus from East Pakistan.

The Indian Objective

From New Delhi's point of view, pressure on Pakistan is a conservative means of expressing Indian anger at Western policy in the area. Public sentiment against Pakistan is strong and Kashmir has long been a local issue between the two countries. India is, and can expect to remain, dominant

in its efforts against the Baghdad pact and promoting opposition to SEATO in Cambodia.

Pakistan's Reaction

Pakistan's reaction to India's tactics may result in the United States and USSR lining up on opposite sides on the Kashmir issue. Nehru's closing of the door on Kashmir has already resulted in Pakistan's deciding to return the Kashmir issue to the UN Security Council. There India, probably backed by the USSR, will face Pakistan, which will probably consider the amount of Western support as an index to its future relations with the West.

Pakistani prime minister Chaudri Mohammad Ali made this

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clear on 6 April in the National Assembly. Facing a barrage of criticism on his handling of Indian moves against Pakistan, he said simply: "I am sure our friends, the Americans, are quite capable of dealing with such tactics."

The border incidents provoked by a militarily more powerful India will almost certainly inspire Pakistani leaders to greater efforts to turn American military assistance into channels designed to promote strength against India rather than the USSR.

Pakistani officials have said they intend to bring up the Kashmir question at the 16 April meeting of the Baghdad pact in Tehran. The amount of support for Pakistani aims given there by the West will probably be looked upon as another indicator of future relations. Mohammad Ali has already indicated that he does not intend to act on the long-pending Treaty of Friendship, Commerce and Navigation with the US until he returns from Tehran.

The Future

In the current atmosphere of disillusion and doubt over the future of SEATO and the Baghdad pact, failure of the West to "produce" as Pakistan and other interested states feel it should could result in the Asian members of the pacts abandoning any sincere effort to achieve the aim of the pacts--defense against Communism.

If Nehru finds that his policy of talking against the pacts to the West and making his opposition to them felt in action against Pakistan is frustrated by strong Western support for Pakistan on Kashmir, he may, as he has in the past, attempt to evolve a new approach in line with his neutralist principles. However, he will also be greatly tempted to undertake a policy of closer economic and political co-operation with the USSR, possibly including purchase of Soviet arms.

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JAPAN COMPETES FOR ROLE IN ASIAN DEVELOPMENT

The Japanese government has well-defined plans for the economic development of South and Southeast Asia--a region where Communist economic penetration is beginning to have an impact, but where Britain and West Germany still offer Japan its stiffest competition. Tokyo's plans are to open new sources of supply for cheap raw materials and to stimulate the Asian market for Japanese goods. But these plans are likely to fall far short of their potential unless the government is willing to devote greater financial resources to developing such trade than in the past.

Financing

A prime problem exists in how to pay for the large required imports of raw materials, plus construction, installation and other costs in the countries which receive aid from Tokyo. Japan would be financially able to support technical assistance projects and an increased volume of long-term loans and investments if the Hatoyama government were willing to lessen its present high priority for social welfare and other domestic programs.

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JAPANESE CAPITAL GOODS EXPORT FINANCING
(JFY APRIL 1954-MARCH 1955, IN THOUSANDS OF DOLLARS)

	Amount of Contract Validated	Amount of Credit Committed	
		Ex-Im Bank	Private Banks
TOTAL	166,789	99,164	24,736
Pakistan	21,098	10,437	2,122
India	9,161	5,791	1,684
Burma	1,022	733	183
Thailand	3,386	1,711	442
Indochina	-	-	-
Formosa	1,328	680	217
Philippines	2,350	1,481	492
Hong Kong	2,422	1,094	450
Indonesia	4,800	3,603	903
Other Countries	121,222	73,633	18,244

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Businessmen's Attitude

Japanese businessmen are neither willing nor able to invest in South and Southeast Asia in any great numbers without political and economic stability in those countries, guarantees against expropriations, repatriation of profits and participation in management. Rates of return on loans and investments must be more nearly commensurate with those in Japan, where rates are high, unless government assistance is forthcoming.

Tokyo's Plans

Current trade: Tokyo's agreement to pay certain reparations and embark on a program of economic co-operation with underdeveloped Asian countries stems from the view that trade between Japan and the rest of Asia has about reached the maximum under present conditions. In the Japanese fiscal year 1954-55, South and Southeast Asia bought only \$46,000,000 of Japan's total capital goods exports of \$167,000,000. The Japanese estimate that they could increase capital goods output by \$633,000,000 over the 1954 level without having to expand existing capacity.

To date, the Japanese government

has not moved much beyond the planning stage. In formulating its plans, moreover, Tokyo counts first of all on a large American dollar contribution. In addition, it hopes payments to the United States for postwar economic aid (GARIOA) and yen funds from the sale of US surplus agricultural commodities will be loaned back to Japan or used directly by the United States to procure Japanese goods for South and Southeast Asia.

Reparations: Reparations payments are likely to be the government's principal contribution to Asian economic development. A \$250,000,000-agreement with Burma, a \$27,000,000-debt settlement with Thailand, and an impending \$800,000,000-agreement with the Philippines are all payable in goods and services, a portion of which is to consist of Japanese long-term loans and investments. In addition, a substantial settlement will eventually have to be made with Indonesia and a lesser one with South Vietnam. In Japan's fiscal 1956-57 budget, \$42,000,000 has already been set aside for reparations, most of it earmarked for Burma.

Private Investors: Except for reparations, the Japanese government has placed primary

JAPANESE EQUITY INVESTMENT ABROAD

	Contracts	1,000 dollars
1951-1954 Aggregate	23	5,294
1953-1954 Aggregate	18	5,007
By Countries		
(Okinawa)	6	432
(Southeast Asia)	6	315
(North America)	2	1,325
(Central & South America)	4	2,935
By Industries		
(Mining-Manufacturing)	9	2,830
(Agriculture, Forestry & Fishery)	5	649
(Banking)	2	1,325
(Others)	2	203

Source: Japanese Ministry of Commerce and Industry

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responsibility on private investors in carrying out Asian economic co-operation in 1956-57. A few deals like the Orissa, India, iron mine project will receive Japan Export-Import Bank assistance in addition to foreign aid and commercial bank credits.

Seventy million dollars in government trust funds is to be transferred to the Export-Import Bank to supplement its capital under the 1956-57 budget. Most of the bank's loans will be for ordinary commercial purposes, however, with only \$8,000,000 earmarked for economic co-operation, i. e., medium-term loans and investments.

Private businessmen have concluded a number of technical assistance agreements with Asian nations in such fields as textiles and fishing, extended medium-term loans for the purchase of Japanese industrial plants and equipment, and participated in a few joint ventures, generally furnishing goods and services. Most loans have been for mine development projects of direct interest to Japanese industry, which are repayable in raw materials at favorable prices.

Japanese businessmen have to depend heavily on domestic bank financing at high rates for foreign trade deals. The supply of credit for other than short-term loans is limited, and Japanese government institutions and private banks alike are conservative in assessing South and Southeast Asian credit risks.

Development corporations:
One of the principal vehicles for carrying out the Japanese program is to be a new Asian

development corporation, which Tokyo proposes should be established with financial participation by the United States and Asian countries. This proposal is in line with the Japanese preference for a regional rather than a bilateral approach.

Communist Competition

India: With respect to Communist competition, India and Burma are presently the areas of greatest concern.

APPROVED PROJECTS UNDER BURMA REPARATIONS SCHEDULE FOR JAPANESE
FY 1955 (1 April 1955-31 March 1956)
(In millions of dollars)

	Contract Price	Estimated Disbursements in FY 1955
Category A	29.4	5.2
Salu Chaung hydroelectric project		
Bleaching, dyeing and finishing plant		
Sericulture project		
Rangoon port project		
Category B	11.1	3.8
Railroad rolling stock and equipment		
Ships, barges, tugs, other small craft		
Vehicles		
Cold storage plant		
Category C	6.5	8.5
Construction materials		
Electrical machinery and equipment		
Fertilizer		
Miscellaneous spare parts and equipment		
Category D	.3	.2
Technical assistance, transportation, and administrative expenses		
TOTAL	47.3	15.7

Source: American embassy, Rangoon

Press reports only \$700,000 disbursed as of late March 1956.

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India plans to spend an estimated \$2.8 billion for foreign capital goods and equipment over the next five years, of which \$1.6 billion must come from foreign grants and credits. Communist commitments include mainly a \$115,000,000 Soviet credit on easy terms for the construction of a steel mill and additional credits by the Satellite countries for industrial equipment.

Britain and West Germany have each agreed to build one steel mill, though on less favorable terms. Japanese

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efforts are likely to be confined to less costly industrial projects for which financing is available on terms competitive with those of Britain and West Germany.

Communist competition in the Indian market has not yet affected the Japanese seriously. Last year, India's trade with the Soviet Union reportedly amounted to only one third of India's trade with Japan. Britain and West Germany were in fact the more formidable competitors. There are strong indications, however, that Communist economic penetration will increase.

Burma: Rice is the key to foreign competition in the Burmese market. It comprises 80 percent of Burma's exports. With Moscow's recent agreement to increase its purchases to 400,000 tons this year, the Sino-Soviet bloc will take at least one third of Burma's total rice exports. This figure may even become as high as one half in succeeding years. Communist countries are thus in a position to gain a major share of Burma's capital goods market despite Burma's preference for dealing with the West.

Communist deliveries to date have been minimal, but are expected to gather momentum this year. In addition to making token payments of rice for such Soviet gifts as a technological institute and a medical center, the Burmese government tentatively plans to procure \$40,000,000 worth of capital goods from the bloc in 1956. This is about one half of its total planned public capital imports. It has already accepted a Chinese Communist offer to expand a textile mill near Rangoon.

The details of Burma's utilization of its barter credits with the USSR will be worked out when a high-level Soviet planning mission visits Rangoon

in May. The Burmese may seek Russian aid for the establishment of a tractor factory and truck assembly plant and for the enlargement of a steel mill. The Chinese and Soviet programs may be supplemented to a lesser extent by the Satellites, which have also purchased Burmese rice.

Other Countries: In other countries of South and Southeast Asia, Communist economic penetration is still just a black cloud on Japan's horizon. The chief source of anxiety for Japan is Chinese Communist exports of light consumer goods. Many Asian governments, particularly those having declining agricultural and raw materials prices, are becoming increasingly tempted to strike a neutralist pose to obtain economic assistance from both sides.

In all cases, ability to pay for imports in foodstuffs and raw materials and the willingness of foreign nations to extend credit on liberal terms are the determining factors in Asian economic planning. The ideological factor plays, at most, a minor role. Communist technicians and trade representatives have so far behaved correctly and given no cause for complaint on political grounds.

Western Competition

Britain and West Germany still offer Japan its stiffest competition in most of Asia, both as to price and quality. Their reluctance or inability to extend large credits has helped Tokyo to retain its lead in total trade, except against Britain in formerly British-controlled areas.

The Hatoyama government's proposal for an Asian development corporation and its positive attitude on reparations should assure the Japanese a more important economic role

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in South and Southeast Asia than in the past. But unless a greater official willingness to participate financially is shown, the government's efforts

are likely to fall considerably short of achieving their full potential. [REDACTED] (Concurred in by ORR)

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PEIPING ATTEMPTS TO OVERCOME PETROLEUM DEFICIENCY

Communist China's First Five-Year Plan (1953-1957) places great emphasis on the development of petroleum resources. Annual production of crude oil increased from 120,000 tons in 1949 to 980,000 tons in 1955, but sharply rising consumption still forced China to import 57 percent of its requirements last year. This dependence on imports has been a major military vulnerability and a strain on overland transport from the USSR.

Reserves

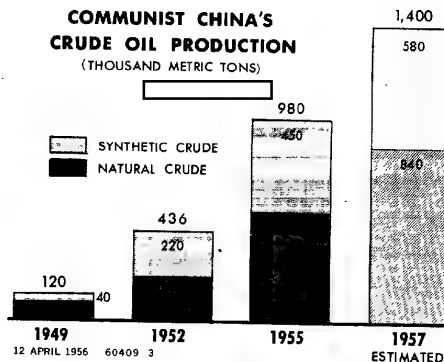
Peiping has undertaken an ambitious program of prospecting and exploration, optimistically hoping to locate a total petroleum reserve of 55,000,000 tons by 1957. This quantity, which is far larger than previous estimates of proved reserves, would probably meet refinery demands for several decades in China, even though it would be only nine months' supply for the USSR and two months' for the United States.

Considerable publicity has attended the search for oil in the remote Tsaidam Basin of Tsinghai Province, where crude oil of good quality reportedly has been discovered. The recent decision to build a 930-mile railroad from Lanchow into the Tsaidam Basin may have been prompted by oil discoveries.

Production

The Chinese Communists acknowledge that their petroleum industry is still backward in spite of its impressive expansion since 1949. The total

COMMUNIST CHINA'S
CRUDE OIL PRODUCTION
(THOUSAND METRIC TONS)



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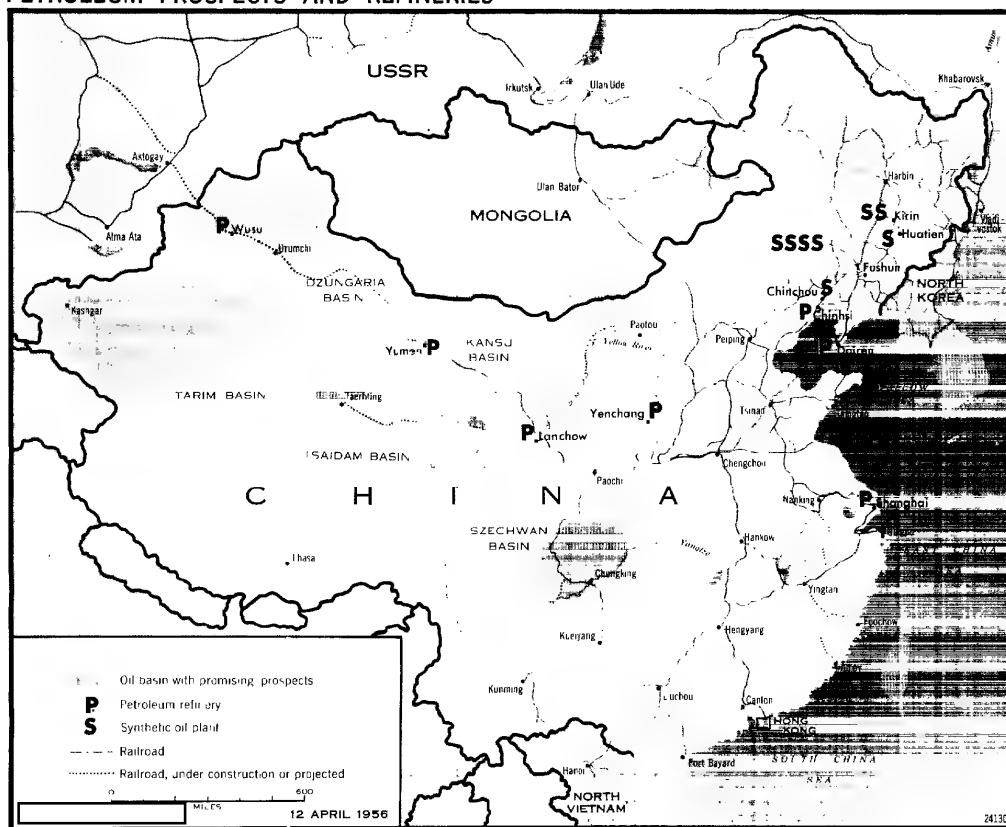
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PETROLEUM PROSPECTS AND REFINERIES



annual production of 980,000 tons of crude oil in 1955 is slightly more than the average daily production in the United States.

Considerable effort has been expended to rehabilitate the Manchurian synthetic oil facilities, most of which were looted by the Soviet army in 1945. In 1955 crude shale oil accounted for about 95 percent of the total production of synthetic crude oil and over 40 percent of the total crude oil production in China. In view of the abundant resources of oil shale at Fushun, some further expansion of oil shale processing plants is expected. Because of their high operating costs, however, greater emphasis

will be placed on exploitation of natural oil in the northwest, and their proportionate contribution to total crude oil production will probably decline.

Development of the Yumen oil field, China's only important producer of natural crude oil, has been delayed by poor communications with markets in eastern China. However, the Lanchow-Sinkiang railroad will probably reach Yumen in mid-1956. By 1960 production may be double the 1955 output of 480,000 tons. Soviet and Rumanian technicians have helped develop the field. For example, a recent Soviet-sponsored innovation has been the injection of water to repressurize the field, a typical

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Soviet practice of secondary recovery to restore or increase crude oil production.

Refining

Petroleum refineries in China are small by American standards, and about a dozen provided only 1,300,000 tons of refining capacity per year in 1955. The USSR, however, plans to build a 1,000,000-ton refinery for the Chinese at Lanchow, where it can be supplied with crude oil from Yumen and from other oil fields which may be discovered in northwestern China. The refinery probably will not be completed during the First Five-Year Plan because preliminary construction work has just begun.

Peiping has announced that aviation gasoline and aviation kerosene will be among the products made at Lanchow; neither of these is now produced in China. The refinery will require specialized conversion equipment, such as catalytic cracking units, in order to produce aviation gasoline.

Imports and Consumption

About half of Communist China's petroleum imports in 1955 were delivered thousands of miles via the Trans-Siberian Railroad, the remainder originating in Soviet Far East refineries or coming by tanker from the Black Sea. These imports, constituting about 30 percent of the volume of all

COMMUNIST CHINA PETROLEUM SUPPLY AND CONSUMPTION (THOUSANDS OF METRIC TONS)

SUPPLY		1955	1952
Domestic crude production		980	436
Imported crude		250	150
Total crude		1,230	586
Domestic refined products		1,100	500
Imported refined products		1,000	800
Total supply		2,100	1,300
CONSUMPTION			
Military		630	400
Aviation fuel		(226)	(143)
Civil		1,470	900
Total		2,100	1,300

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Chinese imports, are a significant strategic liability and a heavy cost to the Sino-Soviet bloc.

In the first few years of the Communist regime, consumption of petroleum products was drastically restricted by severe rationing and use of substitute fuels wherever possible. In recent years, as the supply has improved, rationing has been eased and prices reduced. Industry and transportation has sharply increased their use of petroleum, and Peiping has announced that users of lamp kerosene increased from 90,000,000 in 1950 to 380,000,000 in 1953.

Because of the limitation to greatly increased imports and difficulties in expanding the petroleum industry, consumption is still closely controlled, and petroleum will continue for the foreseeable future to be a much less prominent source of energy for the Chinese economy than it is for the USSR or the United States.

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BRAZIL'S FOREIGN POLICY UNDER KUBITSCHKEK

President Kubitschek's first 60 days as head of the Brazilian government have revealed his intention to expand commercial relations with Western Europe and the Soviet bloc. There are indications that he will seek at the same time to strengthen Brazil's traditional ties with the United States.

Kubitschek's failure during his election campaign to disclaim support of the corrupt Vargas machine and of certain Communist elements had aroused such strong antagonisms in Brazil that for several months before and after the 3 October presidential election there were persistent reports of preparations for a military coup. Since his inauguration on 31 January, rumors of impending coups have been far fewer.

Relations With US

During the campaign, Kubitschek had promised an extensive economic development program for Brazil--"50 years of progress in five." His major foreign policy objectives seem to be to obtain the economic assistance to make good this promise. In this, he seems likely to turn to those countries offering the most help in tackling Brazil's enormous foreign exchange and development problems.

Although Kubitschek is considered more Europe-oriented than were presidents Dutra and Vargas, he looks to the United States as his major source of economic assistance. He has already asked Washington's help in expanding agricultural production and storage facilities, in refunding Brazil's external debt, and in meeting investment goals totaling over a billion dollars. To smooth his relations with the United

States, Kubitschek apparently intends to move as far as possible from the ultranationalistic policies of Vargas.

Kubitschek's foreign minister is regarded as strongly pro-US, but the degree of his own support for American policies in international affairs is not yet clear. However, he agreed to oppose the seating of a Chinese Communist delegation at the International Parliamentary Union meeting in Yugoslavia.

Relations With Europe

While looking to the United States as his major source of aid, Kubitschek hopes to tap Western European sources as well. This was illustrated by his pre-inaugural tour of Europe following his visit to the US. Kubitschek also appears eager to expand the "limited convertibility area" trading arrangement now in effect between Brazil and a European group composed of Britain, West Germany, Belgium and the Netherlands.

In late March, Kubitschek followed up earlier conversations in Bonn with West German industrialists by negotiating the establishment of a large Krupp subsidiary and four Bayer chemical plants and the expansion of a Brazilian steel mill by Ferrostaal. Krupp has agreed to co-operate with Kubitschek in his transportation and power programs by constructing locomotives, trucks, buses, tractors and turbines. The American embassy in Rio de Janeiro believes West German investment in Brazil in 1956 might outstrip new American investment activity.

The West German government has agreed to supply geologists for Brazil's still ineffective

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national petroleum monopoly, Petrobras. Although Kubitschek is believed by some observers to be willing to throw petroleum open to private investment, the step is considered politically risky at present. Foreign involvement in this important field will probably continue to be limited to loans and technical aid. French interests have already supplied equipment for one Petrobras refinery and are considering financing another in conjunction with Belgian and Italian interests.

Relations With Soviet Bloc

Kubitschek has been under mounting public pressure to expand trade with the Soviet bloc. This pressure has increased since Bulganin's overtures to Latin America in January and the US announcement of its surplus cotton disposal program. The subject of Soviet trade and diplomatic relations has become a major Communist-front theme, in which over 20 non-Communist deputies have become involved.

Kubitschek has publicly stated his desire to use trade with the Soviet bloc as a means to solve pressing surplus and foreign exchange problems. Diplomatic ties, however--except those that exist with Czechoslovakia and Poland--will depend on congress, according to Kubitschek. He told newsmen in February that relations with other bloc countries would be "a step I will not initiate."

Soon after Kubitschek's inauguration, the Soviet

embassy in London asked to meet the Brazilian ambassador there to "clear up any past misunderstandings." This was interpreted as a Soviet move to resume relations which Brazil broke off in 1948. The Brazilian ambassador was instructed to confine himself to listening, according to Foreign Ministry officials.

The Czechs and Poles both sent delegations to the inauguration, and Prague is reliably reported to have laid plans to exploit Kubitschek's ancestral ties to improve relations. The plan was abandoned, however, when it was learned that he had no sentimental attachment for Czechoslovakia.

Kubitschek's Foreign Ministry appointees appear gratified by the Soviet bloc offers but aware that past arrangements have not always improved Brazil's trade position. They recently denounced an official trade agreement with Czechoslovakia in order to revise unfavorable exchange rates.

Nevertheless, new trade agreements are under consideration.

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[redacted] preliminary trade talks with the Soviet Union are being carried on between Brazilian and Soviet diplomats in Argentina. Poland, Hungary and East Germany have offered to buy surplus cotton and coffee in exchange for needed industrial equipment. [redacted]

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